

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Richmond</u>	County Macomb
Audit Date June 30, 2004	Opinion Date July 30, 2004	Date Accountant Report Submitted To State: October 22, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature 			

City of Richmond, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Richmond, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12-13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds - Statement of Assets and Liabilities	21
Notes to Financial Statements	22-38
Required Supplemental Information	
Budgetary Comparison Schedules - General Fund	39-42
Other Supplemental Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet	43-46
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	47-50
Fiduciary Funds - Combining Statement of Assets and Liabilities	51



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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Richmond, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Richmond, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



A worldwide association of Independent accounting firms

To the Honorable Mayor and Members
of the City Council
City of Richmond, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richmond, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

July 30, 2004

City of Richmond, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Richmond, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with City's financial statements which follow.

Financial Highlights

As discussed in further detail in the management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Tax revenues, the City of Richmond's largest single revenue source, totaled \$2.3 million in the General Fund this year, representing an increase of 8.5 percent from last fiscal year. This increase primarily reflects the growing tax base of the community as the City continues to realize considerable residential, industrial, and commercial development. Between 1993 and 2003, the City has experienced an average annual increase of 9.6 percent in taxable value, from \$64 million in 1993 to almost \$160 million in 2003. However, the taxable value of the City would have been more than \$192 million if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of \$540,000 in the 2003/2004 fiscal year based upon the City tax levy of 16.7581 mills.
- State-shared revenue, a major source of revenue for the City's General Fund, continued its downward trend of the past several years. The City received \$498,805 in the 2003/2004 fiscal year, a reduction of \$44,281, or 8 percent, from last year and a reduction of \$185,902, or more than 27 percent, from 2001/2002 funding levels. This revenue reduction is masked by the increase in tax revenues resulting from a growing tax base. However, the serious impact of decreasing state-shared revenues will become more apparent as tax base growth slows. The City's proactive response to the decline in state-shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total long-term liabilities for governmental activities is \$2.4 million, a reduction of \$624,000, or 20.7 percent, from the previous year. This reduction reflects a continuing effort by the City Council and administration to maintain a "pay-as-you-go" basis for funding General Fund, Streets, and Enterprise Funds capital projects to minimize the need to incur additional debt. The City now sets aside an amount equal to 2 mills of the general operating tax levy for completion of its 20+ year street improvement program and reviews water and sewer rate structures annually to ensure that use rates maintain acceptable levels of working capital while providing the funding necessary to complete 20+ year utility capital improvement programs.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

- Total fund balances for the City's governmental funds decreased approximately \$80,000 and represent planned and authorized reductions by the City Council to initiate new programs and undertake capital projects and acquisitions. Extensive repairs to the HVAC system and exterior walkways at the police post facility during the 2003/2004 fiscal year significantly contributed to the reduction in the General Fund unreserved fund balance. The General Fund unreserved fund balance includes \$366,740 set aside for completion of the Muttonville portion of the Main Street/Gratiot Avenue streetscape project in the 2004/2005 fiscal year.

Using this Annual Report

This annual report includes a series of financial statements. The statement of net assets and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services. The activities are divided between governmental and business-type activities. Governmental activities include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Business-type activities include the Water and Sewer Funds.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The City of Richmond as a Whole

The following table shows a condensed format of the net assets (in thousands of dollars) as of June 30, 2004. The management's discussion and analysis will present a comparative statement of net assets next year when we have two years of statements in the new GASB No. 34 format:

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 3,257	\$ 2,265	\$ 5,522
Noncurrent assets - Capital assets	<u>5,324</u>	<u>13,276</u>	<u>18,600</u>
Total assets	8,581	15,541	24,122
Liabilities			
Current liabilities	278	70	348
Long-term liabilities	<u>2,383</u>	<u>-</u>	<u>2,383</u>
Total liabilities	<u>2,661</u>	<u>70</u>	<u>2,731</u>
Net Assets			
Invested in capital assets - Net of related debt	2,941	13,276	16,217
Restricted	767	356	1,123
Unrestricted (deficit)	<u>2,212</u>	<u>1,839</u>	<u>4,051</u>
Total net assets	<u>\$ 5,920</u>	<u>\$ 15,471</u>	<u>\$ 21,391</u>

The City's combined net assets for both governmental and business-type activities total \$21 million for fiscal year 2004. Net assets are further segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted for a specific purpose/use and invested in capital assets, total \$17 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$4 million.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the change in net assets for the year ended June 30, 2004 (in thousands of dollars):

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 635	\$ 1,566	\$ 2,201
Operating grants and contributions	205	-	205
Capital grants and contributions	113	886	999
General revenue:			
Property taxes	2,957	-	2,957
State-shared revenues	838	-	838
Interest	30	22	52
Franchise fees	53	-	53
Miscellaneous	365	-	365
Transfers	25	(25)	-
Total revenue	5,221	2,449	7,670
Program Expenses			
General government	846	-	846
Public safety	1,575	-	1,575
Public works	787	-	787
Recreation and culture	588	-	588
Community development	171	-	171
Interest on long-term debt	127	-	127
Water and sewer	-	1,476	1,476
Total program expenses	4,094	1,476	5,570
Change in Net Assets	\$ 1,127	\$ 973	\$ 2,100

Governmental Activities

Governmental activities are those activities (such as public safety or health and human services) provided to the constituents of the City and supported by financing from property taxes and state-shared revenues.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The cost of providing services for governmental activities was \$4.1 million for fiscal year 2004. Additionally, revenues for governmental activities totaled \$5.2 million, which netted to an increase in net assets for the year of \$1.1 million. This indicates that the users of today's services paid more than the full costs of operations during the year ended June 30, 2004.

Business-type Activities

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds; these types of operations are most similar to private businesses.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. This includes the General Fund, Sidewalk Assistance Capital Projects Fund, Special Assessment Debt Service Fund, Water Fund, and Sewer Fund. The other nonmajor governmental funds are consolidated and reported under the column with that heading. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and restricted revenues from grants or fees.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$840,000 in 2004. The General Fund is supported primarily by property taxes and state-shared revenue.

Budgetary Highlights

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. As previously stated, fund balances related to the City's governmental funds decreased \$80,000. The following provides specific details regarding the amendments:

- A total of \$99,464 was transferred from the General Fund unreserved fund balances to the Police Post Buildings and Grounds department to provide funding for major repairs to the police post HVAC and security systems and entrance walkways.

Capital Asset and Debt Administration

At the end of fiscal year 2004, the City had \$16.2 million invested in capital assets (land, buildings, equipment, vehicles, and water and sewer lines). These assets are necessary to carry out the day-to-day operations of the City.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The national economy is demonstrating strong indications of recovery during 2004 and 2005. However, Michigan's fiscal crisis is entering its fifth year. State revenues are at their lowest since 1970. A majority of these reductions were self-inflicted. Enacted state tax cuts have eroded the State's ability to generate revenue; the State's fiscal reserves are depleted, and the state economic rebound is lagging behind the national recovery. During fiscal year 2004 and into 2005, the City anticipates a significant reduction in state-shared revenues and grants. To date, these revenue reductions have been masked because of our growth and increased property tax revenues. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenues, and expenditures.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Richmond Finance Department.

City of Richmond, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 2,974,789	\$ 1,479,840	\$ 4,454,629	\$ 2,729,064
Receivables:				
Special assessments	136,023	12,975	148,998	-
Customers	-	416,019	416,019	-
Other governmental units	116,846	-	116,846	-
Prepaid expenses	29,070	-	29,070	-
Restricted cash and cash equivalents (Note 3)	-	356,379	356,379	-
Capital assets (Note 4):				
Assets not being depreciated	120,000	157,042	277,042	121,036
Assets being depreciated - Net	5,203,783	13,119,293	18,323,076	-
Total assets	8,580,511	15,541,548	24,122,059	2,850,100
Liabilities				
Accounts payable	116,041	29,598	145,639	75,027
Accrued and other liabilities	161,860	40,243	202,103	13,710
Noncurrent liabilities (Note 6):				
Due within one year	707,566	-	707,566	215,000
Due in more than one year	1,675,295	-	1,675,295	1,050,000
Total liabilities	2,660,762	69,841	2,730,603	1,353,737
Net Assets				
Invested in capital assets - Net of related debt	2,940,922	13,276,335	16,217,257	121,036
Restricted:				
Streets and highways	483,099	-	483,099	-
Debt service	184,025	-	184,025	-
Capital improvements	61,560	356,379	417,939	-
Other	37,975	-	37,975	-
Unrestricted (deficit)	2,212,168	1,838,993	4,051,161	1,375,327
Total net assets	<u>\$ 5,919,749</u>	<u>\$ 15,471,707</u>	<u>\$ 21,391,456</u>	<u>\$ 1,496,363</u>

City of Richmond, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Governmental activities:				
General government	\$ 845,932	\$ 16,191	\$ -	\$ -
Public safety	1,575,092	270,812	-	-
Public works	787,087	171,568	96,174	-
Recreation and culture	588,470	142,236	9,937	113,355
Community development	170,532	33,973	98,414	-
Interest on long-term debt	126,939	-	-	-
Total governmental activities	4,094,052	634,780	204,525	113,355
Business-type activities:				
Water	619,805	665,252	-	524,354
Sewer	856,218	900,955	-	361,207
Total business-type activities	1,476,023	1,566,207	-	885,561
Total	<u>\$ 5,570,075</u>	<u>\$ 2,200,987</u>	<u>\$ 204,525</u>	<u>\$ 998,916</u>
Component unit - Tax Increment Finance Authority	<u>\$ 361,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
State-shared revenues
Interest
Franchise fees
Miscellaneous
Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit - Tax Increment Finance Authority
\$ (829,741)	\$ -	\$ (829,741)	\$ -
(1,304,280)	-	(1,304,280)	-
(519,345)	-	(519,345)	-
(322,942)	-	(322,942)	-
(38,145)	-	(38,145)	-
(126,939)	-	(126,939)	-
(3,141,392)	-	(3,141,392)	-
-	569,801	569,801	-
-	405,944	405,944	-
-	975,745	975,745	-
(3,141,392)	975,745	(2,165,647)	-
-	-	-	(361,664)
2,956,535	-	2,956,535	898,380
838,423	-	838,423	-
30,066	21,845	51,911	19,157
52,858	-	52,858	-
365,379	-	365,379	-
24,540	(24,540)	-	-
4,267,801	(2,695)	4,265,106	917,537
1,126,409	973,050	2,099,459	1,279,201
4,793,340	14,498,657	19,291,997	940,490
\$ 5,919,749	\$ 15,471,707	\$ 21,391,456	\$ 1,496,363

City of Richmond, Michigan

	Major Funds		
	Debt Service Fund	Capital Projects Fund	
	General Fund	Special Assessment	Sidewalk Assistance
Assets			
Cash and cash equivalents (Note 3)	\$ 1,199,764	\$ 43,742	\$ 63,430
Accounts receivable - Special assessments	-	125,926	10,097
Prepaid expenses	29,070	-	-
Due from other funds (Note 5)	-	-	-
Due from other governmental units	69,909	-	-
Total assets	<u>\$ 1,298,743</u>	<u>\$ 169,668</u>	<u>\$ 73,527</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 67,744	\$ -	\$ 1,870
Accrued and other liabilities	109,374	-	-
Due to other funds	32,269	-	-
Deferred revenue (Note 8)	-	125,926	10,097
Total liabilities	209,387	125,926	11,967
Fund Balances			
Reserved:			
Library endowments	-	-	-
Prepaid expenses	29,070	-	-
Unreserved, reported in:			
General Fund	1,060,286	-	-
Special Revenue Funds	-	-	-
Debt Service Funds	-	43,742	-
Capital Projects Funds	-	-	61,560
Total fund balances	<u>1,089,356</u>	<u>43,742</u>	<u>61,560</u>
Total liabilities and fund balances	<u>\$ 1,298,743</u>	<u>\$ 169,668</u>	<u>\$ 73,527</u>

**Governmental Funds
Balance Sheet
June 30, 2004**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,667,853	\$ 2,974,789
-	136,023
-	29,070
32,269	32,269
46,937	116,846
<u>\$ 1,747,059</u>	<u>\$ 3,288,997</u>

\$ 46,427	\$ 116,041
15,486	124,860
-	32,269
-	136,023

61,913 409,193

37,975 37,975
- 29,070

- 1,060,286
701,954 701,954
140,283 184,025
804,934 866,494

1,685,146 2,879,804

\$ 1,747,059 \$ 3,288,997

City of Richmond

Governmental Funds **Reconciliation of the Balance Sheet of Governmental Funds to the** **Statement of Net Assets** **Year Ended June 30, 2004**

Total Fund Balances of Governmental Funds	\$ 2,879,804
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,323,783
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(2,227,052)
Accrued interest payable	(37,000)
Compensated absences	(155,809)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	<u>136,023</u>
Net Assets of Governmental Activities	<u>\$ 5,919,749</u>

City of Richmond

	Major Funds		
	Debt Service	Capital	
	Fund	Projects Fund	
	General	Special	Sidewalk Assistance
	Fund	Assessment	
Revenue			
Property taxes	\$ 2,300,767	\$ -	\$ -
Special assessments	7,465	24,817	19,090
Federal sources	-	-	-
State sources	572,821	-	-
Charges for services	477,229	-	-
Interest and rent	18,038	7,032	826
Fines and forfeitures	67,284	-	-
Donations	6,115	-	-
Licenses and permits	166,372	-	-
Sale of cemetery lots	-	-	-
Other	46,878	-	-
Total revenue	3,662,969	31,849	19,916
Expenditures			
Current:			
General government	706,446	-	-
Highways and streets	-	-	-
Public service	-	-	-
Public safety	1,345,596	-	-
Public works	467,748	-	4,034
Recreation and culture	273,918	-	-
Health and welfare	49,894	-	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	113,506	25,000	-
Interest and fiscal charges	-	9,450	-
Total expenditures	2,957,108	34,450	4,034
Excess of Revenue Over (Under) Expenditures	705,861	(2,601)	15,882
Other Financing Sources (Uses)			
Transfers in	21,394	-	30,000
Transfers out	(893,939)	-	-
Total other financing sources (uses)	(872,545)	-	30,000
Net Change in Fund Balances	(166,684)	(2,601)	45,882
Fund Balances - Beginning of year	1,256,040	46,343	15,678
Fund Balances - End of year	<u>\$ 1,089,356</u>	<u>\$ 43,742</u>	<u>\$ 61,560</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 655,768	\$ 2,956,535
-	51,372
37,402	37,402
339,618	912,439
256,069	733,298
11,944	37,840
-	67,284
5,798	11,913
-	166,372
1,942	1,942
102,667	149,545
1,411,208	5,125,942
-	706,446
592,592	592,592
78,016	78,016
153,507	1,499,103
94,548	566,330
289,295	563,213
-	49,894
323,272	323,272
578,723	717,229
124,958	134,408
2,234,911	5,230,503
(823,703)	(104,561)
1,464,713	1,516,107
(597,628)	(1,491,567)
867,085	24,540
43,382	(80,021)
1,641,764	2,959,825
\$ 1,685,146	\$ 2,879,804

City of Richmond, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances of Governmental Funds \$ (80,021)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	850,564
Depreciation expense	(232,072)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities	603,659
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Interest expense is recorded when incurred in the statement of activities	8,000
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Compensated absence liabilities are recorded when earned in the statement of activities	20,186
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Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the government-wide statements	(43,907)
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Change in Net Assets of Governmental Activities \$ 1,126,409

City of Richmond, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Major Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 621,432	\$ 858,408	\$ 1,479,840
Receivables:			
Special assessments	-	12,975	12,975
Customers	158,500	179,662	338,162
Total current assets	779,932	1,051,045	1,830,977
Noncurrent assets:			
Special assessments - Long-term portion	-	77,857	77,857
Restricted cash and cash equivalents (Note 7)	-	356,379	356,379
Capital assets being depreciated - Net	4,327,787	8,948,548	13,276,335
Total noncurrent assets	4,327,787	9,382,784	13,710,571
Total assets	5,107,719	10,433,829	15,541,548
Liabilities - Current liabilities			
Accounts payable	27,467	2,131	29,598
Accrued and other liabilities	24,612	15,631	40,243
Total current liabilities	52,079	17,762	69,841
Net Assets			
Invested in capital assets	4,327,787	8,948,548	13,276,335
Restricted (Note 7)	-	356,379	356,379
Unrestricted	727,853	1,111,140	1,838,993
Total net assets	<u>\$ 5,055,640</u>	<u>\$ 10,416,067</u>	<u>\$ 15,471,707</u>

City of Richmond, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Major Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
Usage fees	\$ 625,638	\$ 875,090	\$ 1,500,728
Tap-in fees	2,555	3,343	5,898
Penalties	8,769	12,846	21,615
Charges for services	18,995	-	18,995
Miscellaneous	5,055	9,676	14,731
Total operating revenues	661,012	900,955	1,561,967
Operating Expenses			
Administration	84,051	80,253	164,304
Infrastructure maintenance	59,917	-	59,917
Water production	93,761	-	93,761
Water system	257,855	-	257,855
Depreciation	124,221	230,876	355,097
Sewer treatment plant	-	347,678	347,678
Sewer system	-	197,411	197,411
Total operating expenses	619,805	856,218	1,476,023
Operating Income	41,207	44,737	85,944
Nonoperating Revenue			
Interest income	8,562	13,283	21,845
Debt service charge	4,240	-	4,240
Connection fees	147,200	149,880	297,080
Total nonoperating revenue	160,002	163,163	323,165
Income - Before operating transfers and contributions	201,209	207,900	409,109
Other Financing Sources (Uses)			
Transfers in	17,000	-	17,000
Transfers out	(4,240)	(37,300)	(41,540)
Total other financing sources (uses)	12,760	(37,300)	(24,540)
Capital Contributions	377,154	211,327	588,481
Net Change in Net Assets	591,123	381,927	973,050
Net Assets - Beginning of year	4,464,517	10,034,140	14,498,657
Net Assets - End of year	<u>\$ 5,055,640</u>	<u>\$ 10,416,067</u>	<u>\$ 15,471,707</u>

City of Richmond, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Major Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers and other funds	\$ 647,863	\$ 898,520	\$ 1,546,383
Payments to suppliers, employees, and other funds	(567,807)	(721,267)	(1,289,074)
Net cash provided by operating activities	80,056	177,253	257,309
Cash Flows from Noncapital Financing Activities			
Operating transfers in	17,000	-	17,000
Operating transfers out	(4,240)	(37,300)	(41,540)
Net cash used in noncapital financing activities	12,760	(37,300)	(24,540)
Cash Flows from Capital and Related Financing Activities			
Collection of customer assessments (principal and interest)	-	12,976	12,976
Purchase of capital assets	(197,969)	(106,345)	(304,314)
Contributed capital from tap-in fees	147,200	149,880	297,080
Debt service charge	4,240	-	4,240
Net cash provided by (used in) capital and related financing activities	(46,529)	56,511	9,982
Cash Flows from Investing Activities - Interest received on investments	8,562	13,283	21,845
Net Increase in Cash and Cash Equivalents	54,849	209,747	264,596
Cash and Cash Equivalents - July 1, 2003	815,025	1,005,040	1,820,065
Cash and Cash Equivalents - June 30, 2004	<u>\$ 869,874</u>	<u>\$ 1,214,787</u>	<u>\$ 2,084,661</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 869,874	\$ 858,408	\$ 1,728,282
Restricted assets	-	356,379	356,379
Total	<u>\$ 869,874</u>	<u>\$ 1,214,787</u>	<u>\$ 2,084,661</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 41,207	\$ 44,737	\$ 85,944
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	124,221	124,221	248,442
Changes in assets and liabilities:			
Customer receivables	(13,149)	(2,435)	(15,584)
Accounts payable	(96,835)	(4,901)	(101,736)
Accrued liabilities	24,612	15,631	40,243
Net cash provided by operating activities	<u>\$ 80,056</u>	<u>\$ 177,253</u>	<u>\$ 257,309</u>

City of Richmond, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2004

	Agency Funds
Assets	
Cash	\$ 27,387
Taxes receivable	<u>11,707</u>
Total assets	<u>\$ 39,094</u>
Liabilities	
Accrued and other liabilities	\$ 31,682
Due to other governmental units	<u>7,412</u>
Total liabilities	<u>\$ 39,094</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Richmond, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Richmond, Michigan:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Discretely Presented Component Units - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- a. The Tax Increment Finance Authority was created to promote capital expansion within the City. The Authority's governing body is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation was inactive during 2004 and has no assets or liabilities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major funds:

Governmental Funds

- The General Fund is the City's primary operating fund. It accounts for all financial resources of general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.
- The Special Assessment Debt Service Fund accounts for the annual payment of principal, interest, and expenses in connection with special assessment debt.
- The Sidewalk Improvement Capital Projects Fund accounts for resources that have been earmarked for future sidewalk capital projects within the City.

Business-type Funds

- The Water Fund accounts for the results of operations that provide water services to citizens and is financed by a user charge for the provision of those services.
- The Sewer Fund accounts for the results of operations that provide sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following funds:

Special Revenue Funds - Special Revenue Funds account for the revenues and expenditures related to major streets, local streets, fire department, housing and urban development, mausoleum, cemetery, parks and recreation, and parking.

Note 1 - Summary of Significant Accounting Policies (Continued)

Debt Service Funds - Debt Service Funds account for the debt retirement activity of the governmental activities of the City for the general obligations and street improvements projects of the City.

Capital Projects Funds - Capital Projects Funds account for the development of capital facilities and equipment other than those financed by the operation of a proprietary fund. These projects include vehicle and repairs, equipment replacement, special assessments, street improvements, and other capital improvements of the City.

Agency Funds - Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating revenue expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value, based on quoted market prices, or estimated fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Noncurrent Receivables - Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Inventories and Prepaid Items - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	30-50 years
Vehicles and equipment	5-40 years
Utility systems	50 years
Infrastructure - Roads	25 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The City adopts its budget on a departmental basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the first regular board meeting in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the second Monday in June, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within the budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the three highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with State law.

The City has designated one bank for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the investment options as allowed under the State statutory authority as listed above.

The City's deposits and investment policies are in accordance with statutory authority.

At June 30, 2004, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash and cash equivalents	\$ 2,974,789	\$ 1,479,840	\$ 27,387	\$ 4,482,016	\$ 2,729,064
Restricted cash and cash equivalents	<u>-</u>	<u>356,379</u>	<u>-</u>	<u>356,379</u>	<u>-</u>
Total	<u>\$ 2,974,789</u>	<u>\$ 1,836,219</u>	<u>\$ 27,387</u>	<u>\$ 4,838,395</u>	<u>\$ 2,729,064</u>

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 4,545,982	\$ 2,729,064
Investments - Bank investment pool	281,487	-
Investments - Mutual funds	10,926	-
Total	<u>\$ 4,838,395</u>	<u>\$ 2,729,064</u>

The City holds cash and investments on behalf of its component units. The total deposits were reflected in the accounts of the bank (without recognition of checks written but not cleared or of deposits in transit) at \$7,609,000. Of that amount, up to approximately \$656,000 was covered by federal depository insurance and at least \$6,953,000 was uninsured and uncollateralized.

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's investments during the year consisted solely of bank investment pool funds and mutual funds. Investments are normally categorized to give an indication of the level of risk assumed by the City; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pool funds are regulated by the Michigan Banking Act. The fair value of the position is the same as the value of the pool shares. The mutual funds are registered with the SEC. The City believes that the investments in these funds comply with the investment authority noted above.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
Capital assets being depreciated:				
Buildings	3,317,771	166,908	-	3,484,679
Infrastructure	-	529,974	-	529,974
Vehicles and equipment	3,069,624	153,682	-	3,223,306
Subtotal	6,387,395	850,564	-	7,237,959
Accumulated depreciation:				
Buildings	749,164	67,084	-	816,248
Infrastructure	-	21,199	-	21,199
Vehicles and equipment	1,052,940	143,789	-	1,196,729
Subtotal	1,802,104	232,072	-	2,034,176
Net capital assets being depreciated	4,585,291	618,492	-	5,203,783
Net capital assets	<u>\$ 4,705,291</u>	<u>\$ 618,492</u>	<u>\$ -</u>	<u>\$ 5,323,783</u>
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 157,042	\$ -	\$ -	\$ 157,042
Capital assets being depreciated:				
Buildings	8,559,572	105,000	-	8,664,572
Utility systems	8,870,582	762,978	-	9,633,560
Vehicles and equipment	186,119	379,914	68,000	498,033
Subtotal	17,616,273	1,247,892	68,000	18,796,165
Accumulated depreciation:				
Buildings	2,552,268	135,915	-	2,688,183
Utility systems	2,657,076	185,285	-	2,842,361
Vehicles and equipment	180,431	33,897	68,000	146,328
Subtotal	5,389,775	355,097	68,000	5,676,872
Net capital assets being depreciated	12,226,498	892,795	-	13,119,293
Net capital assets	<u>\$ 12,383,540</u>	<u>\$ 892,795</u>	<u>\$ -</u>	<u>\$ 13,276,335</u>

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 15,319
Public safety	130,807
Public works	56,669
Community and economic development	5,060
Recreation and culture	<u>24,217</u>

Total governmental activities	<u>\$ 232,072</u>
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Business-type activities:

Water lines	\$ 124,221
Sewer lines	<u>230,876</u>

Total business-type activities	<u>\$ 355,097</u>
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The component unit has \$121,036 of construction in process at June 30, 2004 related to the construction of the community center and arsenic removal plant.

Construction Commitments - At year end, the component unit of the City has an active construction contract relating to the Community Center. This building will then be leased to the City for senior center activities and programs. The project is financed by future Community Development Block Grant monies to be received by the City. At year end, the component unit has spent \$80,297 to date and has approximately \$262,000 remaining in commitments with contracts related to this project.

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2004, the General Fund owed the Fire Department Nonmajor Special Revenue Fund \$8,000. The General Fund also owed the Capital Outlay Fund \$24,269.

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance.

Fund Transferred From	Fund Transferred To	Amount
Interfund Transfers		
Governmental funds:		
General Fund	Sidewalk Assistance Capital Projects Fund	\$ 30,000
	Nonmajor governmental funds	<u>863,939</u>
	Total General Fund	893,939
Nonmajor governmental funds	General Fund	21,394
	Nonmajor governmental funds	<u>576,234</u>
	Total nonmajor governmental funds	<u>597,628</u>
	Total operating transfers out from governmental funds	1,491,567
Business-type funds:		
Sewer Fund	Water Fund	17,000
	Nonmajor governmental funds	<u>20,300</u>
	Total Sewer Fund	37,300
Water Fund	Nonmajor governmental funds	<u>4,240</u>
	Total operating transfers out from business-type funds	<u>41,540</u>
	Total operating transfers out	<u>\$ 1,533,107</u>

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Note 6 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Interest Rate	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
1995 Road Bond:					
Amount of issue - \$3,065,000	4.75%-				
Maturing through 2009	7.20%	\$ 1,990,000	\$ (285,000)	\$ 1,705,000	\$ 300,000
1993 Unlimited Tax Refunding Bond:					
Amount of issue - \$2,285,000	5.50%-				
Maturing through 2005	5.65%	560,000	(275,000)	285,000	285,000
Special Assessment Bond:					
2001 Special Assessments Bonds - 33 Mile Road:					
Amount of issue - \$228,000	4.10%-				
Maturing through 2011	6.00%	200,000	(25,000)	175,000	25,000
Installment purchase obligations:					
Fire Truck Purchase					
Amount of issue - \$100,000					
Maturing through 2007	5.24%	80,711	(18,659)	62,052	19,637
Subtotal		2,830,711	(603,659)	2,227,052	629,637
Other long-term obligations - Compensated absences		175,995	(20,186)	155,809	77,929
Total governmental activities		\$ 3,006,706	\$ (623,845)	\$ 2,382,861	\$ 707,566

Long-term obligation activity for the component unit is summarized as follows:

	Interest Rate	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Component Unit Debt					
1995 Development Bond Series A:					
Amount of Issue - \$1,200,000	5.60%-				
Maturing through 2009	6.30%	\$ 705,000	\$ (95,000)	\$ 610,000	\$ 105,000
1995 Development Bond Series B:					
Amount of Issue - \$1,275,000	5.60%-				
Maturing through 2009	6.30%	755,000	(100,000)	655,000	110,000
Total component unit debt		\$ 1,460,000	\$ (195,000)	\$ 1,265,000	\$ 215,000

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the governmental bond and installment purchase obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 629,637	\$ 100,867	\$ 730,504	\$ 215,000	\$ 70,998	\$ 285,998
2006	395,666	67,273	462,939	235,000	57,606	292,606
2007	396,749	48,527	445,276	255,000	42,778	297,778
2008	375,000	16,744	391,744	280,000	26,320	306,320
2009	380,000	8,431	388,431	150,000	8,431	158,431
2010-2014	50,000	15,758	65,758	130,000	4,525	134,525
Total	<u>\$ 2,227,052</u>	<u>\$ 257,600</u>	<u>\$ 2,484,652</u>	<u>\$ 1,265,000</u>	<u>\$ 210,658</u>	<u>\$ 1,475,658</u>

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$126,000 of special assessments receivable in the future reported in the Special Assessment District Fund; the amount of receivables delinquent at June 30, 2004 is not significant. In addition, there is approximately \$44,000 set aside in the Special Assessment District Fund for repayment of these bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

Interest - The interest incurred for the City for the year approximated \$134,000.

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$285,000 of bonds outstanding are considered defeased.

Note 7 - Restricted Assets

Restricted assets at June 30, 2004 consist of cash and cash equivalents that are restricted for future capital needs for the Sewer Treatment Plant. Retained earnings have been reserved for restricted assets.

Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the entire amount of deferred revenue relates to special assessments and is unavailable to liquidate liabilities of the current period.

Note 9 - Commitments

The City entered into an agreement with Lenox Township for the ability to tax an area of land. This agreement was modified during the year ended June 30, 1999. The modified agreement requires annual payments through September 1, 2018 totaling 3.6 mills of the total assessed value of the area purchased. At June 30, 2004, the assessed value of the area approximated \$33,210,000. Future installment payments have been estimated assuming inflationary increases of 3 percent. The City paid \$113,570 during the year ended June 30, 2004.

The annual requirement to service the agreement as of June 30, 2004, including both principal and interest, is as follows:

2005	\$ 116,977
2006	120,486
2007	124,101
2008	127,824
2009	131,659
2010-2014	719,964
2015-2019	<u>834,633</u>
Total	<u>\$ 2,175,644</u>

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

Note 10 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by council resolution, the City contributes 10 percent of employees' gross earnings and employees have to contribute at least 5 percent. In accordance with these requirements, the City contributed \$118,617 during the current year, and employees contributed \$91,041.

Note 12 - State Construction Code Act

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provision of the Act, the City adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2004 was as follows:

Accumulated expenditures over revenue - July 1, 2003	\$ (35,874)
2003-2004 building department activity:	
Current year revenue	112,294
Current year expenditures	<u>110,843</u>
Excess of revenue over expenditures	<u>1,451</u>
Accumulated expenditures over revenue - June 30, 2004	<u><u>\$ (34,423)</u></u>

Note 13 - New Reporting Model

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities
- A change in the fund financial statements to focus on the major funds
- The Water and Sewer Funds net assets as of June 30, 2002 have been restated as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Net assets - As previously reported	\$ 1,632,043	\$ 961,843
Combine Contributing Capital Fund	<u>100,932</u>	<u>404,014</u>
Net assets - June 30, 2003 - As restated	<u><u>\$ 1,732,975</u></u>	<u><u>\$ 1,365,857</u></u>

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the statement. As permitted by GASB 34, the City has elected to not retrospectively report infrastructure through June 30, 2003. As of July 1, 2003, the City will record infrastructure on an ongoing basis.

Required Supplemental Information

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Budget
<u>Revenue</u>				
Property Taxes				
Real and personal property taxes	\$ 2,278,347	\$ 2,284,346	\$ 2,284,352	\$ 6
Interest, penalties, and other	4,500	16,415	16,415	-
Total property taxes	2,282,847	2,300,761	2,300,767	6
Licenses and Permits				
Building permits	25,000	46,485	48,862	2,377
Electrical and plumbing permits	34,000	36,633	37,979	1,346
Cable television franchise fee	52,000	52,958	52,968	10
Other	17,400	25,311	26,563	1,252
Total licenses and permits	128,400	161,387	166,372	4,985
State Sources				
Revenue-sharing	532,693	493,000	498,805	5,805
Library	8,000	9,937	9,937	-
State grants	50,086	61,012	61,012	-
Liquor license fees	3,200	3,067	3,067	-
Total state sources	593,979	567,016	572,821	5,805
Charges for Services				
Trash collection	133,000	141,188	141,196	8
Fees	14,100	17,801	18,341	540
Rentals	285,163	315,101	317,692	2,591
Total charges for services	432,263	474,090	477,229	3,139

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Budget
Revenue (Continued)				
Fines and Forfeitures				
Traffic fines and penalties	\$ 40,200	\$ 33,972	\$ 33,972	\$ -
Library fines	28,300	33,014	33,312	298
Total fines and forfeitures	68,500	66,986	67,284	298
Donations	3,000	4,870	6,115	1,245
Interest	18,000	18,000	18,038	38
Other Revenue				
Special assessment payments	7,465	7,465	7,465	-
Other	20,275	38,879	46,878	7,999
Total other revenue	27,740	46,344	54,343	7,999
Total revenue	3,554,729	3,639,454	3,662,969	23,515
Other Financing Sources - Operating transfers in	21,394	21,394	21,394	-
Total revenue and other financing sources	3,576,123	3,660,848	3,684,363	23,515

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Budget
Expenditures				
General Government				
City Council	\$ 33,760	\$ 34,925	\$ 36,692	\$ (1,767)
Cable television	51,000	60,070	59,445	625
City manager	84,573	87,233	87,043	190
Elections	10,988	10,988	6,080	4,908
Assessor	41,864	41,864	40,138	1,726
Attorney	46,100	41,800	41,593	207
Clerk	83,461	83,461	85,653	(2,192)
Board of Review	2,300	2,300	1,434	866
Zoning Board of Appeals	1,800	1,800	360	1,440
Treasurer	58,430	58,430	57,086	1,344
Building and grounds	50,674	65,305	63,900	1,405
Building and grounds - Police	123,503	230,121	227,022	3,099
Total general government	588,453	718,297	706,446	11,851
Public Safety				
Police	886,652	890,618	839,888	50,730
Civil defense/Emergency preparedness	1,750	1,750	1,254	496
Traffic and safety	21,411	19,752	19,752	-
Communications	217,836	217,835	213,221	4,614
Building code enforcement	123,102	123,384	112,107	11,277
Planning	79,713	79,713	76,896	2,817
Public service director	42,253	42,253	42,258	(5)
EMS	24,500	24,500	24,500	-
Community transit	21,621	21,621	15,720	5,901
Total public safety	1,418,838	1,421,426	1,345,596	75,830
Public Works				
Department of Public Works	260,363	262,565	268,584	(6,019)
Street lighting	66,467	66,467	68,010	(1,543)
Refuse collection and disposal	137,000	137,000	131,154	5,846
Total public works	463,830	466,032	467,748	(1,716)

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Budget
<u>Expenditures</u> (Continued)				
Health and Welfare - Economic development	\$ 50,832	\$ 50,832	\$ 49,894	\$ 938
Recreation and Cultural - Library	278,685	279,386	273,918	5,468
Debt Service - Principal	<u>113,570</u>	<u>113,570</u>	<u>113,506</u>	<u>64</u>
Total expenditures	2,914,208	3,049,543	2,957,108	92,435
Other Uses - Operating transfers out	<u>652,014</u>	<u>914,037</u>	<u>893,939</u>	<u>20,098</u>
Total expenditures and other uses	<u>3,566,222</u>	<u>3,963,580</u>	<u>3,851,047</u>	<u>112,533</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	9,901	(302,732)	(166,684)	136,048
Fund Balance - July 1, 2003	<u>1,256,040</u>	<u>1,256,040</u>	<u>1,256,040</u>	<u>-</u>
Fund Balance - June 30, 2004	<u>\$ 1,265,941</u>	<u>\$ 953,308</u>	<u>\$ 1,089,356</u>	<u>\$ 136,048</u>

Other Supplemental Information

City of Richmond, Michigan

	Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Fire Department	Housing and Urban Development	Mausoleum
Assets					
Cash and investments	\$ 351,802	\$ 86,658	\$ 13,372	\$ -	\$ 53,088
Due from other funds	-	-	8,000	-	-
Due from other governmental units	34,348	12,589	-	-	-
Total assets	<u>\$ 386,150</u>	<u>\$ 99,247</u>	<u>\$ 21,372</u>	<u>\$ -</u>	<u>\$ 53,088</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 183	\$ 175	\$ 1,061	\$ -	\$ -
Accrued and other liabilities	552	1,388	-	-	-
Total liabilities	735	1,563	1,061	-	-
Fund Balances - Undesignated	385,415	97,684	20,311	-	53,088
Total liabilities and fund balances	<u>\$ 386,150</u>	<u>\$ 99,247</u>	<u>\$ 21,372</u>	<u>\$ -</u>	<u>\$ 53,088</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Debt Service	Street Improvements
\$ 126,133	\$ 53,104	\$ 504	\$ 107,882	\$ 32,401
-	-	-	-	-
-	-	-	-	-
<u>\$ 126,133</u>	<u>\$ 53,104</u>	<u>\$ 504</u>	<u>\$ 107,882</u>	<u>\$ 32,401</u>
\$ 100	\$ 20,639	\$ -	\$ -	\$ -
1,063	12,483	-	-	-
1,163	33,122	-	-	-
124,970	19,982	504	107,882	32,401
<u>\$ 126,133</u>	<u>\$ 53,104</u>	<u>\$ 504</u>	<u>\$ 107,882</u>	<u>\$ 32,401</u>

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City of Richmond, Michigan

	Nonmajor Capital Projects Funds				
	Vehicle and Repairs	WWTP Equipment Replacement	Special Assessment District	Street Improvement	Capital Outlay
Assets					
Cash and investments	\$ 59,001	\$ 397,561	\$ -	\$ 348,372	\$ -
Due from other funds	-	-	-	-	24,269
Due from other governmental units	-	-	-	-	-
Total assets	<u>\$ 59,001</u>	<u>\$ 397,561</u>	<u>\$ -</u>	<u>\$ 348,372</u>	<u>\$ 24,269</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 24,269
Accrued and other liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	24,269
Fund Balances - Undesignated	<u>59,001</u>	<u>397,561</u>	<u>-</u>	<u>348,372</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 59,001</u>	<u>\$ 397,561</u>	<u>\$ -</u>	<u>\$ 348,372</u>	<u>\$ 24,269</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2004**

<u>Nonmajor Permanent Funds</u>		Total Nonmajor Governmental Funds
<u>Cemetery Perpetual</u>	<u>Library Endowment</u>	
\$ -	\$ 37,975	\$ 1,667,853
-	-	32,269
-	-	46,937
<u>\$ -</u>	<u>\$ 37,975</u>	<u>\$ 1,747,059</u>
\$ -	\$ -	\$ 46,427
-	-	15,486
-	-	61,913
-	37,975	1,685,146
<u>\$ -</u>	<u>\$ 37,975</u>	<u>\$ 1,747,059</u>

City of Richmond, Michigan

	Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Fire Department	Housing and Urban Development	Mausoleum
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	37,402	-
State sources	254,977	84,641	-	-	-
Charges for services	-	9,865	111,312	-	1,685
Interest	1,785	1,051	44	-	148
Donations	-	-	-	-	-
Sale of cemetery lots	-	-	-	-	-
Other	1,031	4,139	4,418	-	-
Total revenue	257,793	99,696	115,774	37,402	1,833
Expenditures					
Current:					
Highways and streets	127,453	465,139	-	-	-
Public service	-	-	-	-	1,105
Public safety	-	-	153,507	-	-
Public works	-	-	-	37,402	-
Recreation and culture	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal retirement	-	-	18,723	-	-
Interest and fiscal charges	-	-	4,166	-	-
Total expenditures	127,453	465,139	176,396	37,402	1,105
Excess of Revenue Over (Under) Expenditures	130,340	(365,443)	(60,622)	-	728
Other Financing Sources (Uses)					
Transfers in	-	393,912	97,083	-	36,913
Transfers out	(40,000)	-	(21,394)	-	-
Total other financing sources (uses)	(40,000)	393,912	75,689	-	36,913
Net Change in Fund Balances	90,340	28,469	15,067	-	37,641
Fund Balances - Beginning of year	295,075	69,215	5,244	-	15,447
Fund Balances - End of year	\$ 385,415	\$ 97,684	\$ 20,311	\$ -	\$ 53,088

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Debt Service	Street Improvements
\$ -	\$ -	\$ -	\$ 302,501	\$ 353,267
-	-	-	-	-
-	-	-	-	-
36,793	96,411	3	-	-
712	97	-	1,364	366
-	5,798	-	-	-
-	-	-	-	-
-	3,061	-	-	-
37,505	105,367	3	303,865	353,633
-	-	-	-	-
76,911	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	289,295	-	-	-
-	-	-	-	-
-	-	-	275,000	285,000
-	-	-	31,385	89,407
76,911	289,295	-	306,385	374,407
(39,406)	(183,928)	3	(2,520)	(20,774)
145,409	201,784	-	4,240	-
-	-	-	-	-
145,409	201,784	-	4,240	-
106,003	17,856	3	1,720	(20,774)
18,967	2,126	501	106,162	53,175
\$ 124,970	\$ 19,982	\$ 504	\$ 107,882	\$ 32,401

(Continued on next page)

City of Richmond, Michigan

	Nonmajor Capital Projects Funds				
	Vehicle and Repairs	WWTP Equipment Replacement	Special Assessment District	Street Improvement	Capital Outlay
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	-
State sources	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest	489	3,513	-	917	-
Donations	-	-	-	-	-
Sale of cemetery lots	-	-	-	-	-
Other	1,326	-	-	88,692	-
Total revenue	1,815	3,513	-	89,609	-
Expenditures					
Current:					
Highways and streets	-	-	-	-	-
Public service	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	57,146	-	-
Recreation and culture	-	-	-	-	-
Capital outlay	116,839	-	-	-	206,433
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	116,839	-	57,146	-	206,433
Excess of Revenue Over (Under)					
Expenditures	(115,024)	3,513	(57,146)	89,609	(206,433)
Other Financing Sources (Uses)					
Transfers in	38,667	20,300	57,146	262,826	206,433
Transfers out	-	-	-	(353,912)	-
Total other financing sources (uses)	38,667	20,300	57,146	(91,086)	206,433
Net Change in Fund Balances	(76,357)	23,813	-	(1,477)	-
Fund Balances - Beginning of year	135,358	373,748	-	349,849	-
Fund Balances - End of year	\$ 59,001	\$ 397,561	\$ -	\$ 348,372	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2004

<u>Nonmajor Permanent Funds</u>		
<u>Cemetery Perpetual</u>	<u>Library Endowment</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 655,768
-	-	37,402
-	-	339,618
-	-	256,069
1,458	-	11,944
-	-	5,798
1,942	-	1,942
-	-	102,667
3,400	-	1,411,208
-	-	592,592
-	-	78,016
-	-	153,507
-	-	94,548
-	-	289,295
-	-	323,272
-	-	578,723
-	-	124,958
-	-	2,234,911
3,400	-	(823,703)
-	-	1,464,713
(182,322)	-	(597,628)
(182,322)	-	867,085
(178,922)	-	43,382
178,922	37,975	1,641,764
<u>\$ -</u>	<u>\$ 37,975</u>	<u>\$ 1,685,146</u>

City of Richmond, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2004

	Trust and Agency	Payroll	Total
Assets			
Cash	\$ 13,695	\$ 13,692	\$ 27,387
Taxes receivable	<u>11,707</u>	<u>-</u>	<u>11,707</u>
Total assets	<u>\$ 25,402</u>	<u>\$ 13,692</u>	<u>\$ 39,094</u>
Liabilities			
Accrued and other liabilities	\$ 17,990	\$ 13,692	\$ 31,682
Due to other governmental units	<u>7,412</u>	<u>-</u>	<u>7,412</u>
Total liabilities	<u>\$ 25,402</u>	<u>\$ 13,692</u>	<u>\$ 39,094</u>

July 30, 2004

Honorable Mayor and
Members of the City Council
City of Richmond
68225 Main Street
Richmond, MI 48062

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Richmond for the year ended June 30, 2004. As part of our audit, we offer the following comments and recommendations for your review and consideration.

GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Although there are many differences with this new reporting model, the major additions are as follows:

- **Management Discussion and Analysis:** Management is now required to give an overview of the City's overall financial position and results of operations.
- **Government-wide Financial Statements:** These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- **Budget Comparison:** A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original budget.

The GASB believes this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview of this new reporting model so that you can obtain the greatest benefit from it.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the City staff and the auditors.

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2004, the City's General Fund expenditures exceeded revenues by approximately \$167,000. As a result, fund balance at June 30, 2004, decreased to approximately \$1,089,000. The General Fund fund balance represents approximately 37 percent of the City's budgeted expenditures for the fiscal year ending June 30, 2004.

The City will continue to be faced with budgetary challenges such as legislative uncertainties and future capital equipment and infrastructure needs. As such, we encourage the City Council and administration to continue to closely monitor the budget and to accumulate a sufficient level of fund balance during favorable financial periods. Doing so will help ensure that the City is able to maintain an adequate level of working capital without affecting the level of services provided to citizens or the City's ability to meet infrastructure needs and future obligations.

STATE REVENUE SHARING

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for 14% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal year ending September 30, 2003 and 2004 were less than originally projected.

Currently, the State's Executive 2004/2005 fiscal year budget recommendation includes another reduction to state shared revenue of 0.7% from fiscal year 2003/2004 levels. This budget includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the City as developments occur.

INTERBANK TRANSFERS

During our testing of cash, we noted that the City issues a check to deposit funds from one bank account to the next. In order to ensure a proper year-end cutoff of cash as well as improve work flow and internal control efficiencies, we recommend the City consider performing interbank transfers electronically.

INVESTMENT POLICY

During our review of the City's investment policy, we noted that no more than 75% of the City's total investment portfolio can be invested in a single security type or with a single financial institution. However, per review of investments held at June 30, 2004, more than 75% of the total investment portfolio is invested in CD's at one financial institution. We recommend the Board re-visit the adopted investment policy to ensure the guidelines established are pertinent to today's investment environment and to ensure that violations of the investment policy are prevented.

EXPENDITURE COMPLIANCE

Periodically, the City should review their expenditures to ensure they are in compliance with state guidelines. Certain expenditures such as the annual Christmas party and small gifts for hospitalized employees are the types of expenditures which should be reviewed. Information regarding these guidelines can be obtained from the State of Michigan web site at http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-7603--,00.html. We suggest the City also consult with legal counsel as appropriate regarding such expenditures in question.

CAPITAL PROJECTS FUNDS

Due to the implementation of GASB 34, two funds previously reported as capital projects funds (Sanitary Sewer Contributing Capital Fund and Water Contributing Capital Fund) were consolidated into their respective proprietary fund. Internally, these funds still exist. It appears that the purpose of the funds have been met. We recommend that the Board consider eliminating these two funds by transferring their balances into the Water and Sewer Funds in order to reduce the bookkeeping required to maintain these funds. We would be happy to assist the finance department with this process, if so desired.

INTERNAL CONTROL ITEMS

During our testing, the following items were noted related to the City's accounting and internal control systems and may require attention:

- **Segregation of Duties** - The cash receipts and cash disbursements system of the City relies completely on the work of one to two employees; therefore, the access to cash and recording of the receipts and disbursements is not properly segregated between several employees. This allows for the opportunity to mishandle the cash of the City. We recommend the City review the internal control process of the cash receipts and cash disbursements system and implement policies that would strengthen the internal controls over cash.

- **Pay period ending June 30** - At year-end, the City runs a "special" pay period ending June 30 in order to eliminate the need for a payroll accrual at June 30. Since the pay period ends June 30, the checks are not written and disbursed until after July 1. As the money was not disbursed prior to June 30, these checks are technically not outstanding at June 30 and would have to be accrued at year-end anyway. We suggest the City simply have their pay runs as normally scheduled and prepare a reversing adjustment at June 30 for accrued payroll, including the various withholdings and FICA, in order to avoid the additional bookkeeping and bank reconciliation work done during July.
- **Delinquent personal property taxes** - The City has recorded a delinquent personal property tax receivable for the tax year ending June 30, 2000. No such receivable has been recorded for the years ended June 30, 2001 through today on the general ledger. The City should be consistent in the recording (or not recording) of delinquent personal property taxes.
- **General ledger adjustments** - During the current year, many adjustments were made at year-end to adjust beginning fund balance, special assessment receivables, unbilled revenue, prepaid expenses, deferred revenues, accounts receivables, interfund accounts, accounts payable and to correct mis-postings by the City. In addition, many of these accounts were not properly reconciled at June 30 to account for all activity posted through June 30. This type of accounting maintenance should be performed on a monthly basis by an individual in the finance department. Plante & Moran has assisted numerous municipal staff with the training and assistance necessary to perform these necessary procedures and we would be happy to discuss various alternatives with the Board.
- **Capital Assets bookkeeping** - The City has purchased the fixed asset module of Fund Balance in order to maintain the fixed assets of the City. While the information included in this module for the general fixed assets appears to be materially correct at year-end, the City should consider reviewing the set-up of these assets to determine that all items are properly categorized and accounted for to allow for proper reporting and audit documentation. In addition, capital expenditures should be reviewed monthly in order for proper recording as an addition to fixed assets. Additions can result from the following:
 - Capital expenditures within the governmental funds, including the capital projects fund
 - Capital contributions from the component unit
 - Infrastructure additions from the Major and Local Streets fund
- **Capital Assets threshold** - The City should adopt a capitalization threshold for items to be included as a capital asset. This will allow for the reduction of bookkeeping time in reviewing and maintaining the listing for items below the threshold.

Honorable Mayor and
Members of the City Council
City of Richmond

-5-

July 30, 2004

PUBLIC ACCOUNTING UPDATE

As you are aware, over the past two years public accounting as a profession has undergone significant changes. We wanted to bring you up to date with some of the more significant changes and how Plante & Moran is responding.

There are new independence rules that specify what services an auditor can and cannot provide to a client when the audit falls under United States General Accounting Office (GAO) regulations. Because the City does not currently require an audit of federal funding received, it does not fall under these requirements. However, if it did, there are currently not services being provided by Plante & Moran to the City of Richmond that would be prohibited.

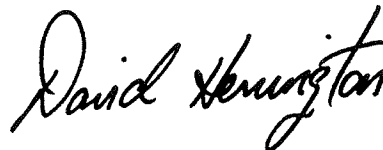
There are new audit pronouncements which provide added requirements for audit documentation and evaluation of the City's technology on internal controls. Plante & Moran has incorporated these new requirements into the audit procedures performed during this year's audit.

There is a new standard related to the detection of fraud in an organization. The new standard adds greater guidance related to the steps an auditor must perform in assessing the risk of fraud. It also specifies that non-accounting personnel must be included in an auditor's inquiries related to fraud. Plante & Moran has always provided the added consideration that this new standard now mandates. The most significant change to our procedures will simply be our documentation of this consideration process.

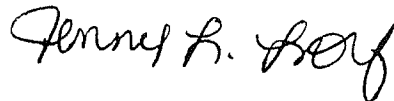
Once again, we would like to thank you for the opportunity to serve as auditors for the City. We truly appreciate the assistance we received from your staff during our audit and we enjoyed working with them throughout the audit. If you have any questions regarding any of the items above, please do not hesitate to contact us.

Very truly yours,

PLANTE & MORAN, PLLC



David W. Herrington



Jenny L. Lorf